Central Intelligence Agency

Washington, D.C. 20505

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14 July 1982

MEMORANDUM FOR: The Honorable R. T. McNamar
Deputy Secretary of the Treasury

FROM : Acting Director
Office of Soviet Analysis 25X1

SUBJECT : Census Bureau Report on the
Domestic Value of Soviet Foreign Trade

1. The recent Commerce Department press conference summarizing a forthcoming Census Bureau report ("The Domestic Value of Soviet Foreign Trade: Exports and Imports in the 1972 Imput-Output Table") is being touted in the press as evidence that the USSR is more vulnerable to economic sanctions than has been suggested previously. According to the headline in the _The New York Times_, the "U.S. Says Rise in Trade by Soviet Makes it Vulnerable to Sanctions." The research, which we think is both sound and thorough, does show that the ratio of imports to national income (Soviet style) is higher when imports are valued in domestic prices than when they are priced at official foreign exchange rates. We believe, however, that the press coverage implies a greater degree of Soviet dependence on East-West trade than is actually the case and ignores the problems that are encountered in translating dependence into leverage.

The Research Effort

2. The Census study is an attempt to reconstruct the values for foreign trade in the 1972 Soviet input-output table. Because the ruble is not convertible and Soviet price agencies pay little attention to world prices in selling domestic prices, Soviet domestic prices are very different from foreign trade prices for similar commodities when the foreign trade prices are converted at the official exchange rate. Although the USSR converts values for foreign trade from transaction prices to domestic prices when constructing national income and input-output accounts, these values are not published officially. 25X1

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3. The main research conclusions are as follows:

-- The ratio of Soviet exports (domestic ~~prices~~) to national income (Marxist definition) is higher than the ratio based on exports converted at the official exchange rate. In the 1970s, exports (excluding gold) averaged about 6.5 percent of national income and rose to 7 percent by 1980.

-- The ratio of Soviet imports to national income is much higher when the value of imports is adjusted to a domestic price base. The adjusted ratio, moreover, rose from about 9 percent in 1970 to about 20 percent in 1980.

-- Imported machinery comprises from 15 to 20 percent of all newly installed equipment in the USSR.

-- Imported consumer goods and agricultural products account for about 15 percent of all consumption.

Trade Ratios, Dependence, and Leverage

4. We believe these measurements overstate Soviet dependence on the West in the following ways:

-- Soviet national income does not cover the full range of goods and services included in gross national product as defined in the West. In 1980, imports amounted to about 15 percent of Soviet GNP, roughly 5 percentage points lower than the number calculated in the Census report.

-- The estimates quoted in press reports reflect total Soviet trade, including trade with client states and trade with LDCs that is settled bilaterally. Imports that the Soviets had to pay for in hard currency were equal to about 5 percent of Soviet GNP, while hard currency imports accounted for less than 10 percent of Soviet investment in machinery and equipment.

-- Much of the rise in the ratio of imports to Soviet national income Soviet style is explained by the more rapid rise in prices paid for imports than in the prices prevailing in domestic economy. In 1980, the ratio of imports to national income was 10 percent in current prices and about 8 percent in 1970 prices. While the inflation in import prices imposed a burden, the USSR benefited from an even more rapid rise in the prices paid for its exports, especially energy and raw materials.

5. These ratios thus give a very fuzzy picture of the Soviet dependence on East-West trade. The numbers being cited are too general to show where the key dependencies lie--as in grain, where the Brezhnev livestock program cannot be sustained without imports from the West or in energy, where Soviet

requirements cannot be satisfied without Western pipe and equipment. [redacted] 25X1 25X1 In any event, whether Soviet dependence on East-West trade in certain sectors can be used for leverage--the ability to persuade the Kremlin to change its policies--is highly uncertain. For leverage to be effective, not only would the Western countries trading with the Soviet Union have to maintain a common front, the Soviet leadership would have to swallow the idea of bowing to Western pressure. [redacted] 25X1

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Subject: New Commerce (Census Bureau) Estimate of Ruble Value of Soviet Foreign Trade

1. The Census Bureau has just released a specialized study of the domestic value of Soviet foreign trade for use in their reconstruction of the Soviet input output table for 1972. The study is carefully researched and is clearly the most authoritative one on the subject. Some of the inferences drawn from the study's results, however, in press briefings and articles are misleading.

2. Briefly, the study estimates the value of Soviet imports and exports in domestic rubles at 18.6 percent and 6.8 percent respectively of National Income (Soviet definition) in 1978, the last year covered. In comparisons with Gross National Product (which is larger than national income, Soviet concept, in that it includes services and depreciation allowances), the import share becomes 12.6 percent and the export share 4.7 percent.

3. These figures in domestic rubles give a very different picture for imports than the figures that are most commonly used, based on comparisons of the dollar value of Soviet imports and exports with estimates of the dollar value of Soviet GNP. In terms of dollars for 1978, the import share was 4.8 percent, and the export share, 4.1 percent. In other words, imports are 2-1/2 times larger relative to GNP in terms of domestic rubles than in terms of dollars.

4. The reasons for these large differences are complex. They appear to include the following factors:

- Imports of consumer goods are taxed extremely heavily, and consequently are sold on the retail market at very high and rising prices, which the Soviet people are willing to pay because they are starved for quality, variety and style.

- Premium prices are charged for imports of machinery and other producer goods, partly because of quality differences.

5. The inference drawn by Commerce officials that these calculations demonstrate a greater Soviet dependence on foreign trade than was formerly believed is partly correct. A large part of Soviet imports are goods which, because of their higher quality and technology, can be produced in the USSR only at relatively high cost. The high prices of imported consumer goods, however, also reflect market shortages rather than just high production costs.

6. In its coverage of the Census Bureau releases, the press has treated total Soviet foreign trade as if it represented trade with the West alone. In 1978, hard currency imports were about one-third of the total dollar value of Soviet imports and hard currency exports were a quarter of

total exports. The Commerce study does not calculate the domestic ruble value of hard currency imports or exports. A reasonable guess for the share of such imports in GNP in domestic rubles is 5 percent.